



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
400 NORTH STREET, HARRISBURG, PA 17120

IN REPLY, PLEASE
REFER TO OUR FILE

May 24, 2024

Docket No. M-2024-3047018
Utility Code: 212285

TERESA K. HARROLD
DIRECTOR, CORPORATE COUNSEL
PENNSYLVANIA AMERICAN WATER COMPANY
852 WESLEY DRIVE
MECHANICSBURG, PENNSYLVANIA 17055
teresa.harrold@amwater.com

Re: Annual Asset Optimization Plan (AAOP) for Pennsylvania-American Water Company – Docket No. M- 2024-3047018

Director Attorney Harrold:

On February 29, 2024, Pennsylvania-American Water Company (PAWC) filed its Annual Asset Optimization Plan (AAOP), pursuant to 52 Pa. Code § 121.6. On March 13, 2024, via Secretarial Letter, the Commission issued a data request to PAWC. On March 27, 2024, PAWC filed its response. On April 12, 2024, via Secretarial Letter, the Commission issued a second data request to PAWC and extended its consideration period to May 29, 2024. On April 24, 2024, PAWC filed its response.

The Commission’s regulations require utilities with an approved Distribution System Improvement Charge (DSIC) to file annually an AAOP with the Commission. The AAOP shall be filed 60 days after the prior 12 months of the company’s Long-Term Infrastructure Improvement Plan (LTIIIP) has expired, and pursuant to this timeframe for each successive AAOP. 52 Pa. Code § 121.6(a).

The AAOP must include:

- 1) A description that specifies all of the eligible property repaired, improved, and replaced in the prior 12-month period under its LTIIIP and prior year’s AAOP.
- 2) A description of the eligible property to be repaired, improved, and replaced in the upcoming 12-month period.

The Commission is charged with reviewing each AAOP only to determine whether the utility is in substantial compliance with the repairs, improvements, or replacements of the specific eligible property in its approved LTIIIP, for the corresponding 12-month timeframes. 52 Pa. Code § 121.6(d). The Commission has delegated the review of AAOPs to the Bureau of Technical Utility Services.

Timely Filing

52 Pa. Code § 121.6(a)

A utility with an approved DSIC shall file with the Commission, for informational purposes, an AAO plan. The AAO plan shall be filed annually with the Commission 60 days after the 12 months of its LTIP has expired and under this time frame for each successive year of the term of the LTIP.

PAWC's AAOP complies with this requirement.

Content

52 Pa. Code § 121.6(b)

An AAO plan must include:

- (1) A description that specifies all the eligible property repaired, improved, and replaced in the prior 12-month period under its LTIP and prior year's AAO plan.*
- (2) A description of the eligible property to be repaired, improved, and replaced in the upcoming 12-month period.*

PAWC's AAOP substantially complies with this requirement.

Substantial Adherence to LTIP

52 Pa. Code § 121.6(d)

An AAO plan will be reviewed by the Commission only to determine whether the utility is in substantial compliance with the repairs, improvements, or replacements of the specific eligible property in its approved LTIP for the corresponding 12-month time frames.

52 Pa. Code § 121.6(e)

Absent any major modifications to the LTIP or Commission action to reject an AAO plan within 60 days of its submission to the Commission, the AAO plan will be deemed approved. The Commission may extend its consideration period if necessary.

52 Pa. Code § 121.6(f)

If an AAO plan is rejected by the Commission, the utility will be notified of the plan's deficiencies and actions needed to repair, improve, or replace eligible property to bring the utility into compliance with the work schedule in its approved LTIP. If the utility concludes that it needs to revise its LTIP to comply with the Commission's determinations, it shall file a petition for modification under § 121.5.

PAWC reports that its actual spending for 2023 was \$307.57 million which was significantly higher (64 %) than its LTIIIP projection amount of \$187.85 million. PAWC reports that the total miles of main replaced across all districts in 2023 was 88.69 miles, which surpassed the LTIIIP target level of 77.8 miles. PAWC also exceeded its projected amount of appurtenance replacement in 2023 except for in its meters category.

PAWC reports that its total proposed project investment for 2024 is \$270.53 million. This is an approximate 49 % increase from the investment amount of \$181.87 million in their LTIIIP. In supplemental information, PAWC notes that there are several reasons for maintaining this increased level of spending to include: increases due to inflation, supply chain disruptions, and restoration requirements. PAWC maintains that they increased the level of investment to benefit the long-term health of the distribution networks. PAWC's actual LTIIIP expenditures in 2022 and 2023 when combined with its projected expenditures for 2024 represent 87%, or \$810.74 million, of the total projected LTIIIP spending of \$936.32. Factoring in PAWC's 2025 and 2026 forecasted spending for the remainder of its LTIIIP, PAWC could spend a total of approximately \$1.2 billion, which represents a 28% overspend and would exceed 20% of the total LTIIIP budget and would be considered a major modification.¹ Such a major modification would require PAWC to file a petition for modification of its LTIIIP.²

In a Commission Order entered on December 16, 2021, at Docket No. P-2021-3028300 approving PAWC's Second LTIIIP (December Order)³, the Commission directed the Company to present the following in its AAOPs: a report that details its updated nonrevenue water and main break occurrence rates. PAWC appears to be in substantial compliance with the December Order.

Ordinarily, we would direct PAWC to file a petition for modification of its LTIIIP to incorporate the major modification, pursuant to 52 Pa. Code § 121.5(a). However, in supplemental information filed PAWC states that it intends to modify its LTIIIP no later than July 22, 2024, to include a Lead Service Line Replacement Plan in compliance with Title 52 Pa. Code § 65.56. As a part of this modification, PAWC has indicated that it intends to revise its annual DSIC expenditure projections to reflect the increase in projected spending. Therefore, to avoid the administrative burden of multiple LTIIIP filings in one year, we shall approve the AAOP as filed with the understanding that PAWC states that it intends to modify its LTIIIP.

Compliance with the LTIIIP is evaluated on a multiyear basis over the life of the LTIIIP. Construction and budget variations in individual years can be expected and it is reasonable to expect that over a multi-year timeframe, much of this variation will be mitigated.

Accordingly, PAWC's AAOP appears to substantially conform to the schedule set forth in the company's LTIIIP.

¹ See, 52 Pa. Code § 121.2 (definition of a major modification).

² See, 52 Pa. Code § 121.5(a) (relating to modifications to and expiration of an LTIIIP).

³ See, Petition of Pennsylvania American Water Company for Approval of its Second Long-Term Infrastructure Improvement Plan, Order entered December 16, 2021, at Docket No. P-2021-3028300.

Conclusion

Upon review of PAWC's Annual Asset Optimization Plan filed on February 29, 2024, it appears that the filing substantially complies with the requirements of 52 Pa. Code § 121.6 and it is approved with the understanding that PAWC intends to modify its LTIP no later than July 22, 2024. This approval is contingent upon the possibility that subsequent audits, reviews, and inquiries, in any Commission proceeding, may be conducted pursuant to 52 Pa. Code § 121.

If you are dissatisfied with the resolution of this matter, you may, as set forth in 52 Pa. Code § 5.44, file a petition with the Commission within twenty (20) days after the date of this letter. Please direct any questions regarding this filing to Ken Shaffer, Bureau of Technical Utility Services at (717) 787-2359 or kennshaffe@pa.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "Rosemary Chiavetta". The signature is written in a cursive style with a large initial "R".

Rosemary Chiavetta
Secretary

cc: David Screven, LAW
Allison Kaster, BIE
Dan Searfoorce, TUS
John Van Zant, TUS